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Message Text

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15
ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 AGR-05 TAR-01 IO-10

INT-05 /105 W
---------- 034189
R 120315Z AUG 75
FM AMEMBASSY WELLINGTON
TO SECSTATE WASHDC 39

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E.O. 11652: N/A
TAGS: EFIN, ECON, NZ
SUBJECT: DEVALUATION AIMED AT REVERSING BALANCE OF PAYMENTS DEFICIT

REF: A. WELLINGTON 2306
B. WELLINGTON 3040 SEPT. 26, 1974

1. DURING PAST SEVERAL WEEKS THE WORSENING BALANCE OF PAYMENTS DEFICIT AND THE NEED FOR EARLY GOVERNMENT ACTION HAD BECOME INCREASINGLY A MATTER OF DISCUSSION AMONG BANK, BUSINESS, INDUSTRIAL AND FARMING GROUPS. DIFFERENCT SPOKESMEN, POINTING OUT THAT SOMETHING HAD TO BE DONE AND SOON, ADVOCATED VARIOUS STEEPS, INCLUDING SELECTIVE IMPORT CONTROLS. FARM GROUPS PRESSED FOR A LARGE ($NZ200 MILLION) GOVERNMENT GRANT TO THE SAGGING FARM SECTOR - NZ'S PRINCIPAL EXPORT RECEIPT EARNER.

2. A PRIME CONSIDERATION IN DECIDING ON DEVALUATION, AS PM IMPLIED IN HIS DEVALUATION ANNOUNCEMENT ON AUGUST 10, WAS A NEEED FOR "TRANSFER OF INCOME BACK TO THE FARMER" TO "RESTORE INCOME TO FARMING". BUT, THOUGH THE
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INCREASE IN THE FARMER'S NZ DOLLAR RETURNS ON HIS EXPORT

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SALES SHOULD APPROACH 15 PER CENT, BECAUSE THE EXPORT
PRICE IS SET BY THE WORLD MARKET, UNTIL THE VOLUME OF
FARM EXPORTS INCREASE BY MORE THAN 15 PER CENT NZ WILL
ACTUALLY BE EARNING LESS FOREIGN EXCHANGE. A REAL
IMPROVEMENT IN FOREIGN EXCHANGE EARNINGS NEEDS AN
INCREASE IN EXPORTS - AND PRICES - FOR NZ'S PASTORAL
EXPORTS. THE IMPORTANCE OF THIS SHIFT BECOMES APPARENT
WHEN IT IS REALIZED THAT NEARLY 75 PER CENT OF NZ EXPORTS FOR
THE YEAR ENDING JUNE WERE FARM PRODUCTS.

3. MANUFACTURED EXPORTS ACCOUNTED FOR NEARLY 13 PER
CENT OF TOTAL EXPORTS IN THE JUNE YEAR. WITH A DROP IN
EXPORT PRICES OF UP TO 15 PER CENT THEY SHOULD BECOME MORE
COMPETITIVE ABROAD AND THE OVERALL EXPORT RECEPTS SHOULD
INCREASE. BUT OVE 42 PER CENT OF NZ MANUFACTURED EXPORTS
GO TO AUSTRALIA. AUSTRALIA IS HAVING SERIOUS ECONOMIC
PROBLEMS. DIFFERENT SECTORS IN AUSTRALIA HAVE BEEN ACTIVELY
OPPOSED TO ANY LARGE INCREASE IN MANUFACTURED IMPORTS FROM NZ.
NZ MANUFACTURERS HAVE COMPLAINED THAT AUSTRALIA HAS NOT
COMPLIED WITH ITS NEW ZEALAND - AUSTRALIA FREE TRADE
AGREEMENT (NAFTA) COMMITMENTS BY RESTRICTING IMPORTS OF
CERTAIN NZ MANUFACTURES. THERE MAY BE RESISTANCE TO ANY
LARGE INCREASE IN NZ EXPORTS TO AUSTRALIA. ALSO,
FROM INFORMATION REACHING NZ THERE IS STRONG PRESSURE
FROM SOME SECTORS ON THE GOA TO DEVALUE. AT THIS POINT,
THOUGH, GOA DOES NOT SHOW SIGNS OF DOING SO. WHETHER NZ
WILL SELL MORE MANUFACTURED PRODUCTS TO ITS LARGEST
CUSTOMER, AUSTRALIA, WILL LIKELY BE MORE INFLUENCED BY
AUSTRALIA'S ECONOMIC SITUATION THAN THE CHEAPER EXPORT
PRICES. AGAIN, UNLESS THE VOLUME/ PRICE INCREASES BY OVER
15 PER CENT NZ WILL BE EARNIN LESS FOREIGN EXCHANGE ON
MANUFACTURED EXPORTS TO AUSTRALIA. ALSO, NEARLY 24 PER
CENT OF NZ'S MANUFACTURED EXPORTS GO TO THE ASIA-PACIFIC
AREA. QUESTIONS HAVE BEEN RASIED BY SOME OBSERVERS WHETHER
THERE IS ENOUGH ELASTICITY OF DEMAND IN THIS AREA TO OFFSET
THE DECREASED EXPORT PRICE.

4. NEARLY 9 PERCENT OF NZ'S EXPORTS ARE OF FOREST PRODUCTS,
AGAIN, MOSTLY (51 PER CENT) GOING TO AUSTRALIA (AND NEARLY
33 PER CENT TO JAPAN). THE DEMAND FOR FOREST PRODUCTS IS
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DEPRESSED. WHETHER THE OVERALL INCREASE IN FOREST PRODUCT
EXPORTS CAN EXCEED 15 PER CENT, AT THIS TIME IS AN OPEN
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 XU**$-$>X!<0*,8A@A.&UW##YQ-#A@=HQ!36><JRE/"#+FE*0JEFM>/H0Q(R%M UB@V)(N"Y)W8"WWE)Q=
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